

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Bay Arenac Behavioral Health	County Bay County
Audit Date September 30, 2004	Opinion Date December 10, 2004	Date Accountant Report Submitted to State: April 19, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.			
Street Address P.O. Box 3275	City Saginaw	State MI	ZIP 48605
Accountant Signature 			

BAY-ARENAC BEHAVIORAL HEALTH

Bay City, Michigan

Annual Financial Statements,

Auditors' Report

and Single Audit

September 30, 2004

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Independent Auditors' Report

Bay-Arenac Behavioral Health
Bay City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bay-Arenac Behavioral Health as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bay-Arenac Behavioral Health's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bay-Arenac Behavioral Health as of September 30, 2004 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2004, on our consideration of Bay-Arenac Behavioral Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bay-Arenac Behavioral Health's basic financial statements. The accompanying Substance Abuse Prevention and Treatment Schedules identified in the table of contents are presented for purposes of additional analysis as required by the Michigan Department of Community Health, and are not a required part of the basic financials statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bay-Arenac Behavioral Health's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financials statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bay-Arenac Behavioral Health's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan
December 10, 2004

BAY-ARENAC BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2004

This section of the Bay-Arenac Behavioral Health (the Authority) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2004. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The Authority is the Prepaid Inpatient Health Plan (PIHP) for a region consisting of Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties. The Authority subcontracts for Medicaid services and supports with affiliated community mental health services programs (its Affiliates), including Huron Behavioral Health, the Montcalm Center for Behavioral Health, Shiawassee County Community Mental Health Authority and Tuscola Behavioral Health Systems.

State General Fund revenue and other grants and earned contracts continue to be sourced directly from the state and are exclusively related to Arenac and Bay counties. Additionally, the Authority is the designated regional substance abuse coordinating agency, operating as Riverhaven Coordinating Agency, a division of the Authority. The Authority receives Medicaid, state block grant, other federal and state grants and local funding for the provision of substance abuse services in Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties.

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities

BAY-ARENAC BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2004

or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as expenditures.

Fund financial statements are divided into two categories. These are governmental fund financial statements and proprietary fund financial statements.

Governmental fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

SUMMARY OF NET ASSETS

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2004 and 2003.

BAY-ARENAC BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2004

As of September 30, 2004 and 2003
(In \$000s)

	<u>2004</u>	<u>2003</u>
<u>Assets</u>		
Current assets	\$ 5,333	\$ 6,889
Restricted assets	8,324	5,890
Capital assets	835	628
Total assets	<u>\$ 14,492</u>	<u>\$ 13,407</u>
<u>Liabilities</u>		
Current liabilities	\$ 4,805	\$ 4,216
Noncurrent liabilities	1,235	1,170
Total liabilities	<u>6,040</u>	<u>5,386</u>
<u>Net Assets</u>		
Investment in capital assets	835	628
Restricted for capital purposes	824	441
Restricted for risk management	4,467	4,283
Restricted for community reinvestment	631	85
Restricted for substance abuse services	425	221
Unrestricted	1,270	2,363
Total net assets	<u>8,452</u>	<u>8,021</u>
Total liabilities and net assets	<u>\$ 14,492</u>	<u>\$ 13,407</u>

Current financial position is defined as the excess of current assets over current liabilities. When current assets exceed current liabilities this is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$528 thousand, a decrease of \$2.1 million or 80%, compared to prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

At year-end, current liabilities include \$34 thousand of unspent state general fund formula funding that is carried forward as deferred revenue to next year.

Restricted assets consist of cash, investments and accrued interest receivable. These assets are restricted for payment of compensated absences, restricted for capital purposes (funded depreciation), and restricted for risk management. Restricted assets of \$8.3 million have increased by \$2.4 million or 41%.

BAY-ARENAC BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2004

Assets restricted for capital purposes (funded depreciation) was established in fiscal 2003. This is enabled by the Michigan Mental Health Code and is intended to preserve a source of funds capital asset acquisition and liquidation of capital related debt. Annual funding of this account is not to exceed the amount of depreciation expense and the maximum amount of this account is not to exceed the total of accumulated depreciation on capital assets. For fiscal 2004, the Authority fully funded its annual depreciation expense of \$383 thousand.

At year end, the Medicaid risk reserve balance was \$4.1 million and is fully funded to its contractual maximum annual risk exposure of 7.5% of the funds at risk. At year-end, the balance in the state general fund (formula funds) risk management account was \$309 thousand and is fully funded to its contractual maximum annual risk exposure of 7.5% of the funds at risk.

Capital assets consist of property and equipment having an estimated useful life of more than one year. In fiscal 2004, \$591 thousand was expended for capital acquisitions and depreciation expense was \$383 thousand. The net change in capital assets was an increase of \$208 thousand for the year. When capital expenditures exceed depreciation expense, the net increase represents an investment or expansion of capital resources. Conversely, a net decrease represents a reduction in capital resources available for the future.

As of year-end, the net book value of capital assets was 20% of the original book value, compared to 17% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

Noncurrent liabilities consist of the liability for compensated absences. These include vested earned time off (vacation and sick) pay obligations.

Restricted net assets include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation) and for risk management. These were discussed above.

Also included in this category is \$631 thousand of unspent Medicaid funds restricted for community investment (for mental health and developmental disability) and \$425 thousand unspent liquor tax proceeds restricted for substance abuse services in their county of origin. These may be spent next year in accordance with their respective restrictions and provisions.

Unrestricted net assets at the end of the year were \$1.3 million, a decrease of \$1.1 million or 46% for the year. Unrestricted net assets were 9% of total assets, down from 18% from the prior year.

SUMMARY OF ACTIVITIES

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2004 and 2003.

BAY-ARENAC BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2004

Summary of Activities
For the years ended September 30, 2004 and 2003
(In \$000s)

	<u>2004</u>	<u>2003</u>
<u>REVENUE</u>		
Medicaid specialty supports and services		
Arenac and Bay counties	\$ 24,043	\$ 23,394
Counties under Affiliate subcontracts	30,511	27,447
Regional Substance Abuse	858	900
State general fund priority populations	4,582	4,459
State substance abuse block grants	1,932	1,730
Program service revenue	220	137
Grants and earned contracts	3,151	2,795
County appropriation	671	620
Affiliate local funds contributions	710	710
Liquor tax revenue	490	430
Interest income	128	135
Other local income	48	54
TOTAL REVENUE	<u>67,344</u>	<u>62,811</u>
<u>EXPENSE</u>		
Personnel expense	12,271	11,363
Operating expense	22,514	21,414
Affiliate subcontract expense	30,065	27,821
Local funds contributed to State	1,255	1,255
Depreciation	383	441
TOTAL EXPENSE	<u>66,488</u>	<u>62,294</u>
EXCESS OF REVENUE OVER EXPENSE	856	517
Transfers from Affiliates	-	2,685
Change in net assets	<u>\$ 856</u>	<u>\$ 3,202</u>

Excess of revenue over expenses from activities for the current year was \$856 thousand or 1% of revenue.

Revenue for the year was \$67.3 million, an increase of \$4.5 million or 7% from the prior year.

Medicaid specialty supports and services revenue of \$55.4 million represents 82% of total revenue and increased \$3.7 million or 7% compared to the prior year.

State general fund priority population revenue (formula funding) of \$4.6 million represents 7% of total revenue and increased \$123 thousand or 3% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. Current year

BAY-ARENAC BEHAVIORAL HEALTH
Management's Discussion and Analysis
For the year ended September 30, 2004

revenue includes \$208 thousand of prior year deferred revenue. Unspent current year funds of \$34 thousand are not included in current revenue and are shown as deferred revenue available for next year. There was no lapse of state general funds to MDCH in the current year.

Program service revenue of \$220 thousand includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These represent 3% of total revenue and have increased \$83 thousand or 61% over the prior year.

Grants and earned contract revenue of \$3.2 million includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 5% of total revenue and have increased \$356 thousand or 13% over the prior year.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 1.3% of revenue and have increased \$38 thousand or 4.7% over the prior year.

Total expense of \$66.5 million has increased \$4.2 million or 7% compared to the prior year.

Personnel expense of \$12.3 million is 18% of total expense and has increased \$908 thousand or 8%.

Operating expense of 22.5 million is 34% of total expense and has increased \$1.1 million or 2%.

FUTURE OUTLOOK

The state of Michigan continues to struggle in efforts to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown.

Management expects revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of the Authority is currently healthy, the economic environment will continue to put pressure on the Authority's ability to meet the service and support needs of its constituents.

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As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

Bay-Arenac Behavioral Health
Statement of Net Assets
September 30, 2004

Governmental
Activities

Assets

Current assets

Cash and cash equivalents	\$ 4,317,392
Accounts receivable, net	438,178
Interest receivable	2,503
Due from other governmental units	144,661
Prepaid items	<u>430,117</u>

Total current assets	<u>5,332,851</u>
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Noncurrent assets

Cash and cash equivalents - restricted	8,323,636
Capital assets - depreciable, net	<u>835,182</u>

Total noncurrent assets	<u>9,158,818</u>
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Total assets	<u>14,491,669</u>
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Liabilities

Current liabilities

Accounts payable	2,581,660
Accrued wages and other payroll liabilities	334,408
Due to other governmental units	1,854,808
Deferred revenue	<u>33,818</u>

Total current liabilities	<u>4,804,694</u>
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Noncurrent liabilities

Compensated absences	<u>1,235,084</u>
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Total liabilities	<u>6,039,778</u>
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Net Assets

Invested in capital assets	835,182
Restricted for capital purposes	824,402
Restricted for community investment	631,055
Restricted for risk management	4,467,059
Restricted for substance abuse services	424,521
Unrestricted	<u>1,269,672</u>

Total net assets	<u>\$ 8,451,891</u>
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The Notes to the Financial Statements are an integral part of this statement

Bay-Arenac Behavioral Health
Statement of Activities
For the Year Ended September 30, 2004

Functions	<u>Expenses</u>	<u>Program Revenues</u>		Net (Expense) Revenue and Changes Net Assets
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities				
Health & Welfare - Mental Health	<u>\$ 66,487,811</u>	<u>\$ 58,187,779</u>	<u>\$ 6,914,011</u>	\$ (1,386,021)
General revenues				
Grants and contributions not restricted to specific programs				2,066,134
Unrestricted investment earnings				75,240
Restricted investment earnings				52,900
Miscellaneous revenues				<u>48,062</u>
Total general revenues and contributions				<u>2,242,336</u>
Change in net assets				856,315
Net assets - beginning of year (as restated)				<u>7,595,576</u>
Net assets - end of year				<u>\$ 8,451,891</u>

Bay-Arenac Behavioral Health
Governmental Funds
Balance Sheet
September 30, 2004

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 4,156,869
Accounts receivable, net	438,178
Interest receivable	2,285
Due from other governmental units	144,661
Prepaid items	430,117
Cash and cash equivalents - restricted	<u>4,017,318</u>
 Total assets	 <u><u>\$ 9,189,428</u></u>
Liabilities	
Accounts payable	\$ 2,581,661
Accrued wages and other payroll liabilities	334,408
Due to other governmental units	1,854,808
Deferred revenue	<u>33,818</u>
 Total liabilities	 <u>4,804,695</u>
Fund balances	
Reserved for capital purposes	824,402
Reserved for prepaid items	430,117
Reserved for community investment	631,055
Reserved for compensated absences	1,235,084
Reserved for substance abuse	424,521
Unreserved	<u>839,554</u>
 Total fund balances	 <u>4,384,733</u>
 Total liabilities and fund balances	 <u><u>\$ 9,189,428</u></u>

Bay-Arenac Behavioral Health
Reconciliation of The Balance Sheet of Governmental Funds
To The Statement Of Net Assets
September 30, 2004

Total fund balance - governmental funds	\$ 4,384,733
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	4,138,950
Deduct: accumulated depreciation	(3,303,768)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	4,467,060
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Compensated absences	<u>(1,235,084)</u>
Net assets of governmental activities	<u><u>\$ 8,451,891</u></u>

Bay-Arenac Behavioral Health
Governmental Funds
Statement of Revenues, Expenditures And Changes In Fund Balances
For the Year Ended September 30, 2004

Revenues

State grants	
State General Fund - DCH Contract	\$ 4,582,000
Substance abuse	1,931,706
Title XX	21,320
Other state revenues	<u>144,106</u>
Total state grants	<u>6,679,132</u>
Federal and State grants	<u>429,907</u>
Contributions - local units	
County appropriations	671,179
Affiliate contributions	710,281
PA 2 liquor tax	<u>489,646</u>
Total contributions - local units	<u>1,871,106</u>
Charges for services	
Medicaid - DCH contract	55,444,754
Medicaid - other	112,519
Client and third party pay	80,524
Other earned contract revenue	<u>2,549,982</u>
Total charges for services	<u>58,187,779</u>
Interest and rents	
Interest	<u>75,240</u>
Other revenue	<u>48,062</u>
Total revenues	<u>67,291,226</u>

Bay-Arenac Behavioral Health
Statement of Revenues, Expenditures And Changes In Fund Balances
Governmental Funds
For the Year Ended September 30, 2004

Expenditures

Health & Welfare - Mental Health

Current:

Personnel costs \$ 12,205,819

Operating expenditures 53,833,869

Capital outlay 590,773

Total expenditures 66,630,461

Revenues over expenditures 660,765

Other Financing Sources (Uses)

Transfers to internal service fund (131,539)

Net change in fund balance 529,226

Fund balance, beginning of year (as restated) 3,855,507

Fund balance, end of year \$ 4,384,733

Bay-Arenac Behavioral Health
Reconciliation Of The Statement of Revenues, Expenditures And Changes
In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Year Ended September 30, 2004

Net change in fund balances - total governmental funds	\$ 529,226
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Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense.

Add: capital outlay	590,771
Deduct: depreciation expense	(383,457)

An internal service fund is used by management to cover the risk of
overspending the Managed Care Specialty Services Program contract.
The net revenue (expense) of the fund attributable to those funds is
reported with governmental activities.

Add: interest income from governmental internal service funds	52,900
Add: transfers from General Fund	131,539

Some expenses reported in the statement of activities do not require the
use of current financial resources and therefore are not reported as
expenditures in the funds.

Less: increase in accrual for compensated absences	<u>(64,664)</u>
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Change in net assets of governmental activities	<u><u>\$ 856,315</u></u>
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Bay-Arenac Behavioral Health
Proprietary Fund
Statement of Net Assets
September 30, 2004

Governmental
Activities
Internal
Service Funds

Assets

Current assets

Cash and cash equivalents

\$ 160,524

Interest receivable

218

Total current assets

160,742

Noncurrent assets

Cash and cash equivalents - restricted

4,306,318

Cash and cash equivalents

\$ 4,467,060

Net Assets

Restricted for risk management

\$ 4,467,060

Bay-Arenac Behavioral Health
Proprietary Fund
Statement of Revenues, Expenses And Changes In Fund Net Assets
For the Year Ended September 30, 2004

	Governmental Activities Internal Service Funds
Non-operating revenues (expense)	
Interest income	\$ 52,900
Transfer from General Fund	131,539
Change in net assets	184,439
Net assets, beginning of year	4,282,621
Net assets, end of year	\$ 4,467,060

Bay-Arenac Behavioral Health
Proprietary Fund
Statement of Cash Flows
For the Year Ended September 30, 2004

Governmental
Activities
Internal
Service Funds

Cash Flows from Noncapital Financing Activities

Transfer from General Fund

\$ 131,539

Cash Flows from Investing Activities

Interest Income

52,682

Net increase in cash and cash equivalents

184,221

Cash and cash equivalents, beginning of year

4,282,621

Cash and cash equivalents, end of year

\$ 4,466,842

Bay-Arenac Behavioral Health
Notes to Financial Statements
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Bay-Arenac Behavioral Health have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the Authority's significant accounting policies:

Reporting Entity

The Authority operates under the provisions of Act 258 - Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance. These supports and services are made available to residents of Arenac and Bay counties who meet eligibility and other criteria. As the community mental health services program for Arenac and Bay counties, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving the public interest.

The Authority was designated by the Michigan Department of Community Health as the Medicaid Prepaid Inpatient Health Plan (PIHP) for its affiliation regional service area including Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties. The Authority arranges for or provides supports and services for Medicaid-eligible persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. To fulfill its obligation under this designation, the Authority subcontracts with its other community mental health services program affiliates, specifically:

- Huron Behavioral Health,
- Montcalm Center for Behavioral Health
- Shiawassee County Community Mental Health Agency, and
- Tuscola Behavioral Health Systems

Further, the Authority was designated by the Michigan Department of Community Health as the substance abuse coordinating agency operating as Riverhaven Coordinating Agency, a division of the Authority. The regional coordinating agency has responsibility for a service area that includes Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties. The Authority arranges supports and services for individuals with addictive disorder and substance abuse who meet eligibility and other criteria. To fulfill its obligation under this designation, the Authority subcontracts with a network of substance abuse providers.

In accordance with accounting principles generally accepted in the United States of America and GASB Statement 14 *The Financial Reporting Entity*, these financial statements present all of the Authority's funds. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Authority has no component units.

Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Authority. Governmental activities are normally supported by intergovernmental revenues.

Bay-Arenac Behavioral Health

Notes to Financial Statements

September 30, 2004

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Board's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met.

Governmental Fund Financial Statements – The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the accrual basis of accounting. The difference between the accrual basis of accounting and modified accrual basis of accounting for these revenues is not material to the financial statements.

Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2004, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.

Bay-Arenac Behavioral Health

Notes to Financial Statements

September 30, 2004

- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fund Accounting

The financial activities of the Board are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Board uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the Board that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund accounts is the Board's primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund – This fund represents amounts restricted for risk management which have been set aside to fund the net uninsured exposure of potential shortfalls of Michigan Department of Community Health risk contract revenues.

Budgetary Data

The Board's general fund budget is under formal budgetary control and follows both the Board's and Michigan Department of Community Health's annual budget process in establishing the budgetary data presented in the financial statements. The annual fiscal budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America and the requirements of the Michigan Department of Community Health. All appropriations lapse at year end.

Bay-Arenac Behavioral Health
Notes to Financial Statements
September 30, 2004

Cash and Cash Equivalents

The Board's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and/or certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Board to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority's deposits are in accordance with statutory authority.

A specific amount of cash has been restricted for future payments of compensated absences, depreciation reserve and risk management reserve.

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and affiliates.

Inventories

The Board does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 for acquisitions on or after October 1, 2002 and \$500 for acquisitions before October 1, 2002 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair value at the date of donation.

Bay-Arenac Behavioral Health
Notes to Financial Statements
September 30, 2004

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Board are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment and furnishings	5
Computers	5
Vehicles	5
Leasehold improvements	7-30

Incurred But Not Reported Claims Liability

The amounts recorded in current liabilities include amounts for incurred inpatient, residential and community provider claims liability based on management's estimate. The Authority may not be billed for these until several months after the date of service. Therefore, the liability is not liquidated within the normal 60-day period after year end. Also, the actual cost may vary from the estimated amount for a variety of reasons that include, but are not limited to, retroactive consumer eligibility or cost recovery from other third party payers.

Deferred Revenue

Deferred revenues arise when the authority receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Board has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Compensated Absences

Authority policy allows full time employees to accumulate earned time off at various rates, depending on the employees' length of service with the Authority. Governmental fund financial statements record expenditures when employees are paid for these compensated absences. The government-wide financial statements record expenditures and the related liability when these compensated absences are earned by employees.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for compensated absences are examples of the latter.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures over Appropriations

During the year ended September 30, 2004, the Authority incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as shown on page 4-2 of this report.

Bay-Arenac Behavioral Health
Notes to Financial Statements
September 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS

The Authority's deposits and investments are included on the statement of net assets under the following classifications:

Financial statement caption	
Cash and cash equivalents	\$ 4,317,392
Cash and cash equivalents - restricted	<u>8,323,636</u>
	<u>\$ 12,641,028</u>

The above amounts are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

Bank deposits (checking accounts, savings accounts, and money markets)	\$ 3,997,248
Investments	8,642,825
Petty cash	<u>955</u>
Total	<u>\$ 12,641,028</u>

Deposits

The carrying amount at year-end of the Authority's deposits with financial institutions was \$3,997,248. The actual bank balances amounted to \$3,551,577. Of this amount, \$ 200,880 was insured by FDIC and \$ 3,350,697 was uninsured and uncollateralized.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each institution with which it deposits government funds with and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The Authority's investments are categorized below to give an indication of the level of risk assumed by the Authority at September 30, 2004. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the Authority or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterpart's trust department (or agency) in the Authority's name. Category 3 includes investments held by:

- a. The counterpart or
- b. The counterpart's trust department (or agent) but not in the Authority's name

Bay-Arenac Behavioral Health
Notes to Financial Statements
September 30, 2004

Investments at fair value at September 30, 2004 are categorized as follows:

	<u>Category</u>	<u>2004</u>
Commercial paper	2	\$ 4,315,051
Uncategorized investments		
Government pooled investment funds		4,281,114
Mutual funds		<u>46,660</u>
Total uncategorized investments		<u>4,327,774</u>
		<u>\$ 8,642,825</u>

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units as of September 30, 2004 consists of the following:

State of Michigan - Medicaid	\$ 37,498
State of Michigan - Other	353,077
Other CMH Boards - Access Alliance	(412,598)
Other governmental units	<u>166,684</u>
	<u>\$ 144,661</u>

NOTE 5 - CAPITAL ASSETS

Depreciable capital asset activity for the year ended September 30, 2004 was as follows:

	<u>Balance October 1, 2003</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance September 30, 2004</u>
Other capital assets				
Equipment and furniture	\$ 3,205,010	\$ 549,903	\$ 140,353	\$ 3,614,560
Vehicles	341,725	29,123	-	370,848
Leasehold improvements	<u>141,796</u>	<u>11,746</u>	<u>-</u>	<u>153,542</u>
Subtotal	<u>3,688,531</u>	<u>590,772</u>	<u>140,353</u>	<u>4,138,950</u>
Accumulated depreciation				
Equipment and furniture	2,747,524	331,357	140,353	2,938,528
Vehicles	284,362	32,631	-	316,993
Leasehold improvements	<u>28,778</u>	<u>19,469</u>	<u>-</u>	<u>48,247</u>
Subtotal	<u>3,060,664</u>	<u>383,457</u>	<u>140,353</u>	<u>3,303,768</u>
Net capital assets	<u>\$ 627,867</u>	<u>\$ 207,315</u>	<u>\$ -</u>	<u>\$ 835,182</u>

Bay-Arenac Behavioral Health
Notes to Financial Statements
September 30, 2004

The Authority has established a reserve for capital purposes, otherwise known in the Michigan Mental Health Code as funded depreciation. Amounts funded to this reserve are restricted for purchase, replacement or improvement of capital assets or retirement of debt related to such capital purposes. The reserve was fully funded for depreciation expense. The balance of the reserve as of September 30, 2004 is \$824,402.

NOTE 6 - DUE TO OTHER GOVERNMENTAL UNITS

Due to other governmental units as of September 30, 2004 consist of the following:

State of Michigan - inpatient/residential care	\$ 183,490
State of Michigan - cost settlement	308,410
Bay County - VEBA contribution	717,475
Contract agencies	<u>645,433</u>
	<u>\$ 1,854,808</u>

NOTE 7 - LONG-TERM DEBT

Long-term debt consists of compensated absences, and the obligation can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Compensated absences	<u>\$ 1,170,419</u>	<u>\$ 64,665</u>	<u>\$ -</u>	<u>\$ 1,235,084</u>	<u>\$ -</u>

The entire vested amount of accrued compensated absences is considered long-term as the amount expended each year is expected to be offset by vacation time earned for the year.

NOTE 8 - RISK MANAGEMENT

MMRMA

The Authority participates in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense costs, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

Bay-Arenac Behavioral Health
Notes to Financial Statements
September 30, 2004

MMRMAs coverage limits are \$15,000,000 for liability and \$1,500,000 for vehicle physical damage. There is a \$250 deductible per vehicle for vehicle physical damage and \$250 per occurrence for property and crime. The contribution made by the Authority to the MMRMA was \$ 75,706 for the period July 1, 2004 to July 1, 2005.

Travelers Casualty and Surety Company of America

The Authority has crime coverage through the Travelers Casualty and Surety Company of America. The coverage limit is \$4,000,000 with a \$1,000 deductible per occurrence for crime. If a covered loss exceeds the coverage limit, all further payments for such loss are the sole obligation of the Authority.

Managed Care Risk Contracts

The Authority has managed care risk contracts with the State of Michigan for Medicaid Specialty Supports and Services and for State General Fund Formula Funding for priority populations. The Authority self-insures the risk for these contracts with an Internal Service Fund risk reserve. The Authority holds the Medicaid risk contract and reserve for the region; including the service areas of its affiliates. The State General Fund risk contract and reserve covers only the Authority's specific service area. The contracts provide for the use of contract funds to establish the risk reserve that is restricted to meet future risk obligations. Expenditures from the Internal Service Fund risk reserve will occur if, in any one fiscal year, the Authority finds it necessary to expend more than current resources to provide contractually obligated supports and services for eligible individuals.

NOTE 9 - DEFINED BENEFIT PENSION PLAN

Plan Description – The Authority participates in the Bay County Employees' Retirement System (the Plan), a single-employer defined benefit pension plan that covers substantially all of the employees of the Authority. The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The Plan does not issue stand-alone financial statements and is included in the financial report of Bay County.

Basis of Accounting – The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable, in accordance with the terms of the Plan. Administrative costs are financed through investment earnings.

Funding Policy/Contributions – The Authority funds normal costs which are based on actuarially determined rates, expressed as percentages of annual covered payroll, and which are sufficient to accumulate assets to pay benefits when due. The provisions of the Plan require the Authority to contribute at an actuarially determined rate. Plan members contribute at a rate of 4 percent of their annual salary. The Authority pays the plan member contributions for the Authority employees, except for union negotiated contracts which pay their own contributions. The contribution requirements of plan members are established and may be amended by the Board of Commissioners in accordance with County policies, union contracts, and plan provisions.

Classes of Employees – The Plan's membership consists of the following at December 31, 2003, the date of the last actuarial valuation:

Bay-Arenac Behavioral Health
Notes to Financial Statements
September 30, 2004

	<u>County</u>	<u>Bay-Arenac Behavioral Health</u>
Retirees and beneficiaries receiving benefits	<u>512</u>	<u>18</u>
Terminated plan members entitled to, but not yet receiving, benefits	<u>86</u>	<u>8</u>
Active plan members	<u>1,224</u>	<u>206</u>

Annual Pension Cost – For the year ended September 30, 2004, the contributions to the plan were as follows:

Authority contribution on behalf of employees	\$ 308,368
Employee contribution	21,189

NOTE 10 - EMPLOYMENT BENEFITS

Upon retirement, an employee, excluding dependents, may be provided health insurance through Bay County. It will not be paid to deferred retirees, but only to those who begin drawing retirement benefits immediately upon retirement from the Authority. The Authority contributed \$1,039,712 to the Bay County Retiree Health Plan during the year ended September 30, 2004. Contributions that are made by the Authority are discretionary based on the plan. The following table summarizes Bay-Arenac Behavioral Health's determination of unfunded accrued liability as of December 31, 2002 is based on an actuarial valuation.

Accrued Liability:	
Retirees and beneficiaries	\$ 1,111,016
Active members	<u>5,759,241</u>
Total accrued liability	6,870,257
Valuation of assets	<u>1,399,479</u>
Unfunded accrued liability at December 31, 2002	5,470,778
Less:	
Contributions to plan in 2003	1,664,368
Contributions to plan in 2004	<u>1,039,712</u>
Unfunded accrued liability at September 30, 2004	<u>\$ 2,766,698</u>

NOTE 11 - CONTINGENT LIABILITIES

Amounts received or receivable from federal, state and other grantor agencies are subject to audit and adjustment by the grantor. Any disallowed amounts, including amounts already collected, may constitute a liability. The amount, if any, of costs that may be disallowed cannot be determined at this time.

Bay-Arenac Behavioral Health

Notes to Financial Statements

September 30, 2004

The Authority is currently disputing a Michigan Department of Community Health (MDCH) audit disallowance for the audit period fiscal year 2001 and 2002. The MDCH auditors proposed audit adjustments totaling approximately \$2,568,000 in disallowed expenditures. The Authority is awaiting the written audit report at which time they will appeal the proposed audit adjustments to an MDCH administrative law judge. Bay-Arenac Behavioral Health disagrees with the proposed audit adjustments and intends to vigorously contest the adjustments once they are formalized in the written audit report.

NOTE 12 - OPERATING LEASES

Bay-Arenac Behavioral Health has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the financial statements.

The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining non-cancelable lease terms as of September 30, 2004:

<u>Year Ending September 30,</u>	<u>Amount</u>
2005	\$ 778,231
2006	602,684
2007	303,286
2008	227,460
2009	170,694
2010-2011	<u>317,613</u>
	<u><u>\$ 2,399,968</u></u>

Lease expense for the year ended September 30, 2004 was \$805,611. Bay-Arenac Behavioral Health also has 8 additional leases which are operated on a month to month lease. The total payments on these leases are \$10,067 per month.

NOTE 13 - TRANSFERS BETWEEN FUNDS

The Authority transferred \$ 131,539 from the General Fund to the Internal Service Fund risk reserve during the fiscal year. The transfer is in accordance with the criteria established by the Michigan Department of Community Health to meet expected future risk corridor requirements of the managed care specialty supports and services program contracts.

NOTE 14 - RESTATEMENT

The September 30, 2004 financial statements have been restated to account for \$424,995 of VEBA contributions payable that were not accounted for in the prior audit. The following shows the effects of the restatement on the balance sheet.

	<u>Original 2003</u>	<u>Restatement</u>	<u>Restated 2003</u>
Due to other governmental units	\$(1,549,298)	\$ (424,995)	\$(1,974,293)
Total net assets	(8,020,571)	424,995	(7,595,576)

Bay-Arenac Behavioral Health
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the Year Ended September 30, 2004

	Budgeted Amounts		Actual Over (Under) Final Budget
	Original	Final	
Revenues			
State grants			
Department of Community Health			
Contract General Fund	\$ 4,423,925	\$ 4,666,226	\$ 4,582,000
Substance Abuse	1,824,063	1,941,623	1,931,706
Title XX	21,320	21,320	21,320
Other state revenues	20,000	98,000	144,106
Total state grants	6,289,308	6,727,169	6,679,132
Federal and state grants	549,341	511,030	429,907
Contributions - local units			
County appropriations	671,179	671,449	671,179
Affiliate contributions	710,280	710,280	710,281
PA 2 liquor tax	866,591	523,817	489,646
Total contributions - local units	2,248,050	1,905,546	1,871,106
Charges for services			
Medicaid - DCH contract	51,514,887	53,634,480	55,444,754
Medicaid - other	144,000	115,000	112,519
Client and third party pay	940,781	42,340	80,524
Other earned contract revenue	1,800,106	2,693,865	2,549,982
Total charges for services	54,399,774	56,485,685	58,187,779
Interest and rents			
Interest	96,000	64,618	75,240
Other revenues	732,810	101,757	48,062
Total revenues	64,315,283	65,795,805	67,291,226

Bay-Arenac Behavioral Health
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the Year Ended September 30, 2004

	<u>Budgeted Amounts</u>			Actual
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Over (Under)</u> <u>Final Budget</u>
Expenditures				
Health & Welfare - Mental Health				
Current:				
Personnel costs	\$ 11,726,211	\$ 11,653,360	\$ 12,205,819	\$ 552,459
Operating expenditures	52,589,072	54,142,445	53,833,869	(308,576)
Capital outlay	-	-	590,773	590,773
Total expenditures	<u>64,315,283</u>	<u>65,795,805</u>	<u>66,630,461</u>	<u>834,656</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>660,765</u>	<u>660,765</u>
Other Financing Sources (Uses)				
Transfers to Internal Service Fund	<u>-</u>	<u>-</u>	<u>(131,539)</u>	<u>(131,539)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>529,226</u>	<u>529,226</u>
Fund balance, beginning of year (as restated)	<u>4,280,502</u>	<u>4,280,502</u>	<u>3,855,507</u>	<u>(424,995)</u>
Fund balance, end of year	<u>\$ 4,280,502</u>	<u>\$ 4,280,502</u>	<u>\$ 4,384,733</u>	<u>\$ 104,231</u>

Bay-Arenac Behavioral Health
Substance Abuse Prevention and Treatment
Summary of Budgeted, Reported, and Audited Amounts
For the Year ended September 30, 2004

Category	Budgeted	Reported	Audited	Variance Report/Audit	Local Match
<u>Central Administration</u>					
1 Salaries and wages	\$ 236,020	\$ 241,689	\$ 241,689		
2 Fringe benefits	80,750	81,638	81,638		
3 Travel	7,000	8,050	8,050		
4 Supplies and materials	10,000	9,993	9,993		
5 Equipment	-	-	-		
6 Other expenditures	58,200	57,030	57,030		
7 Indirect cost	50,545	50,545	50,545		
8 Other cost distributions	-	-	-		
9 <u>Sub-total</u>	<u>442,515</u>	<u>448,945</u>	<u>448,945</u>		
10 Less Central admin. fees and collections	1,624	1,514	1,514	\$ -	\$ 1,514
11 Less Medicaid	163,348	179,805	179,805		
12 Net expenditures for Central administration	277,543	267,626	267,626	-	
13 Add categorical grants administered centrally (list)					
14 Categorical grant A	-				
15 Categorical grant B	-				
16 Categorical grant C	-				
17 Subtotal Central and categorical grants expenditures	277,543	267,626	267,626	-	
18 Gross subcontractors' expenditures	2,941,524	2,757,260	2,757,316	56	
19 Less subcontractors' fees and collections	-	-	-	-	-
20 less Medicaid (PEPM)	794,669	780,681	780,681	-	
21 less Medicaid savings c/o	48,110	48,110	48,110	-	
Add Medicaid abatement	-	(8,737)	(8,737)	-	
22 Net subcontractors' expenditures	2,098,745	1,937,206	1,937,262	56	
23 Grand totals (Add subtotals from line 17+ line22)	<u>2,376,288</u>	<u>2,204,832</u>	<u>2,204,888</u>	56	
24 FUNDS REQUIRED	2,376,288	2,204,832	2,204,888	56	
25 Less - 1st source funding					
26 Local PA2 funding	435,190	273,126	273,182	56	273,182
27 Other Local	-	-	-	-	-
28 Direct Federal	-	-	-	-	
29 Other		525	525	-	
30 Subtotal of 1st source funding	<u>435,190</u>	<u>273,651</u>	<u>273,707</u>	<u>56</u>	
31 Amounts to be paid by state agreement	1,941,098	1,931,181	1,931,181		274,696
32 Total DCH payments to the CA.		1,931,181	1,931,181		
33 (Over)/under payment		-	-		

Bay-Arenac Behavioral Health
Substance Abuse Prevention and Treatment
Schedule of Expenditures and Funding Sources By Program
For the Year Ended September 30, 2004

Program	Final budget	Reported	Audited Expenditures				Funding Sources							Variance
	Net of Fees and Medicaid	Net of Fees and Medicaid	Gross Amount	Less Medicaid	Less Fees	Net Amount	State	Other Local	PA2	Direct Federal	Other	Total Funding	Reported / Audited	
Central administration	\$ 279,167	\$ 267,626	\$ 448,945	\$ 179,805	\$ 1,514	\$ 267,626	\$ 267,626	\$ -	\$ -	\$ -	\$ -	\$ 267,626	\$ -	
Prevention	633,706	577,901	626,011	48,110	-	577,901	479,708	-	98,193	-	-	577,901	-	
Treatment	1,200,425	1,080,166	1,852,110	771,944	-	1,080,166	905,233	-	174,933	-	-	1,080,166	-	
Women's specialty/CDR	91,829	91,829	91,829	-	-	91,829	91,829	-	-	-	-	91,829	-	
HIV/Aids	43,944	43,944	44,000	-	-	44,000	43,944	-	56	-	-	44,000	56	
State Incentive Grant	136,793	136,793	136,793	-	-	136,793	136,793	-	-	-	-	136,793	-	
Tobacco Retailers inspection	6,048	6,573	6,573			6,573	6,048	-	-	-	525	6,573		
Grand totals	\$ 2,391,912	\$ 2,204,832	\$ 3,206,261	\$ 999,859	\$ 1,514	\$ 2,204,888	\$ 1,931,181	\$ -	\$ 273,182	\$ -	\$ 525	\$ 2,204,888	\$ 56	

Reconciliation of PA2 funds:

Beginning balance	\$ 221,486
+ Additions	489,646
- Contractual expenditures	(284,082)
Non-contractual exp.	(2,529)
Fund balance	424,521

Reconciliation of Medicaid Managed Care Funds (PEPM)

PEPM payments received	\$ 858,017
+ Medicaid savings c/o	48,110
- Funds expended	(999,859)
- Funds returned to DCH	-
- ISF Financing/Abatement	8,737

Bay-Arenac Behavioral Health
Substance Abuse Prevention and Treatment
MDCH STAFFING GRANT WORKSHEET
COORDINATING AGENCY: Riverhaven Coordinating Agency
Regional Substance Abuse Coordinating Agency
ADMINISTRATION
FYE 09-30-04

Expenditures	BUDGET	A C T U A L					REPORTED	VARIANCE
	Final Budget	CPA's Audited Amounts	MDCH Adjustments	MDCH Adjusted Amounts	Budget Variance Adj. (see Note 1)	Adjusted Actual (see Note 2)	Per Final FSR	Between Actual & Reported
Salaries and wages	\$ 185,245	\$ 187,333		\$ 187,333	\$ -	\$ 187,333	\$ 187,333	\$ -
Fringe benefits	55,573	63,574		63,574	-	63,574	63,574	-
Travel	10,490	9,508		9,508	-	9,508	9,508	-
Supplies and materials	30,902	23,490		23,490	-	23,490	23,490	-
Contractual	14,500	16,004		16,004	-	16,004	16,004	-
Equipment	-	-		-	-	-	-	-
Other expenditures	57,241	42,182		42,182	-	42,182	42,182	-
Other cost distribution	56,809	56,809		56,809	-	56,809	56,809	-
TOTAL EXPENDITURES	\$ 410,760	\$ 398,900	\$ -	\$ 398,900	\$ -	\$ 398,900	\$ 398,900	\$ -
Less:								
Fees carried In	-	-	-	-	-	-	-	-
Current fees	-	-	-	-	-	-	-	-
Plus:								
Fees carried out	-	-	-	-	-	-	-	-
ADJUSTED EXPEND.	410,760	398,900	-	398,900	-	398,900	398,900	-
Less earmarks/restricted								
Other State source	4,100	4,100	-	4,100	-	4,100	4,100	-
Medicaid	131,347	150,024	-	150,024	-	150,024	150,024	-
(describe)	-	-	-	-	-	-	-	-
NET EXPENDITURES	\$ 275,313	\$ 244,776	\$ -	\$ 244,776	\$ -	\$ 244,776	\$ 244,776	\$ -

Funding Sources:								
Local and other	\$ -	\$ -		\$ -		\$ -	\$ -	\$ -
State share	275,313	244,776		244,776		244,776	244,776	-
Total Funding	\$ 275,313	\$ 244,776	\$ -	\$ 244,776	\$ -	\$ 244,776	\$ 244,776	\$ -
Funding Percentages:								
Local and other	0.00%							
State share	100.00%							
Total Percentage	100.00%							

Note 1: Budget variance allowed is the higher of \$5,000 or 15%, per line item.
However, MDCH funding is limited to the total budgeted state share.

Note 2: "Adjusted Actual" expenditures are reduced for budget overruns.

Bay-Arenac Behavioral Health
Supporting Schedule of Personnel Costs
For the Year Ended September 30, 2004

	<u>General Fund</u>
Personnel Costs	
Salaries and wages	\$ 8,424,780
Fringe benefits	3,752,959
Board per diem	<u>28,080</u>
 Total personnel costs	 <u><u>\$ 12,205,819</u></u>

Bay-Arenac Behavioral Health
Supporting Schedule of Operating Expenditures
For the Year Ended September 30, 2004

	<u>General Fund</u>
Operating Expenditures	
Advertising	\$ 32,006
Client fees room and board	119,855
Communications	246,293
Contractual services	1,398,665
Education and training	34,707
Insurance	79,530
License and fees	4,037
Local funds paid to State	1,255,438
Membership and dues	27,056
Postage	38,884
Publications	14,394
Recruitment	12,158
Rental equipment	16,406
Rental expense - buildings and other	618,710
Rental expense - State leases	208,189
Repairs and maintenance	432,742
Supplies and small equipment purchases	429,958
Transportation and vehicle expense	50,320
Travel and conferences	173,755
Utilities	78,552
Ancillary services-PT, ST, OT, RN, Dietary	942,795
Case management and supports coordination	1,043,150
Community inpatient services	989,946
Day program services	1,730,529
Outpatient services	2,298,241
Residential home services	9,347,104
State inpatient services	920,472
Subcontract costs	30,064,918
Supported employment services	261,874
Supportive services	138,393
Prevention	824,792
	<hr/>
Total operating expenditures	<u><u>\$ 53,833,869</u></u>



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Bay-Arenac Behavioral Health
Bay City, Michigan

We have audited the financial statements of Bay-Arenac Behavioral Health as of and for the year ended September 30, 2004, and have issued our report thereon dated December 10, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Bay-Arenac Behavioral Health's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bay-Arenac Behavioral Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Bay-Arenac Behavioral Health in a separate letter dated December 10, 2004.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan
December 10, 2004



Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Directors
Bay-Arenac Behavioral Health
Saginaw, Michigan

Compliance

We have audited the compliance of Bay-Arenac Behavioral Health with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. Bay-Arenac Behavioral Health's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Bay-Arenac Behavioral Health's management. Our responsibility is to express an opinion on Bay-Arenac Behavioral Health's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bay-Arenac Behavioral Health's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Bay-Arenac Behavioral Health's compliance with those requirements.

In our opinion, Bay-Arenac Behavioral Health complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control over Compliance

The management of Bay-Arenac Behavioral Health is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Bay-Arenac Behavioral Health's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Bay-Arenac Behavioral Health as of and for the year ended September 30, 2004, and have issued our report thereon dated December 10, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan

December 10, 2004

Bay-Arenac Behavioral Health
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Award Amount	Expenditures
Department of Health and Human Services			
Passed through Michigan Department of Community Health			
Block Grant for Prevention and Treatment of			
Substance Abuse	93.959	\$ 1,804,830	\$ 1,794,388
Less State Funding		542,828	<u>537,374</u>
			<u>1,257,014</u>
Passed through Michigan Department of Community Health			
SIG - Bay Area Social Intervention Services	93.243	136,793	<u>136,793</u>
Department of Health and Human Services			
MIA OBAR PASARR	93.778	95,000	95,378
Less State Funding		23,750	<u>23,845</u>
			<u>71,533</u>
Center for Mental Health Services			
Block Grant for Community Mental Health Services 04 B1 MI CMHS	93.958	218,000	164,035
Block Grant for Community Mental Health Services 03 B1 MI CMHS-02		50,000	<u>50,000</u>
			<u>214,035</u>
Substance Abuse and Mental Health Administration for			
Mental Health Services			
McKinney Homeless Act	93.150	40,027	40,027
Less State Funding		23,027	<u>23,027</u>
		17,000	<u>17,000</u>
Passed through Michigan Family Independence Agency			
Wraparound Coordination	93.558	3,843	<u>3,843</u>
Passed through Michigan Family Independence Agency			
Strong Families -- Safe Children	93.556	31,707	<u>31,675</u>
Total Department of Health and Human Services			<u>1,731,893</u>
Housing and Urban Development			
Passed through Michigan Department of Community Health			
Supportive Housing Program	14.235	31,208	20,440
Less State Funding		1,100	<u>818</u>
		30,108	<u>19,622</u>
Total Federal programs			<u>\$ 1,751,515</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

Bay-Arenac Behavioral Health
Notes to the Schedule of Expenditures of Federal Awards
September 30, 2004

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of Bay-Arenac Behavioral Health. All federal financial awards passed through other government agencies are included on the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal financial assistance revenue is included in the basic financial statements as federal and state grants.

Bay-Arenac Behavioral Health
Schedule of Findings and Questioned Costs
September 30, 2004

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

93.959

Block Grant for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ yes X no

**Bay-Arenac Behavioral Health
Schedule of Findings and Questioned Costs
September 30, 2004
(continued)**

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards for the year ended September 30, 2004.

SECTION III - FEDERAL AWARD FINDINGS

There were no findings or questioned costs for Federal Awards for the year ended September 30, 2004.

**Bay-Arenac Behavioral Health
Summary Schedule of Prior Audit Findings
September 30, 2004**

There were no audit findings for the year ended September 30, 2003.



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December 10, 2004

Board of Directors
Bay-Arenac Behavioral Health
Bay City, Michigan

In planning and performing our audit of the financial statements of Bay-Arenac Behavioral Health for the year ended September 30, 2004, we considered the Organization's internal control in order to determine our examination procedures for the purpose of expressing an opinion on the financial statements not to provide assurance on the internal control system.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 23, 2004, on the financial statements of Bay Arenac Behavioral Health.

LEASEHOLD IMPROVEMENTS

At present, management has a capital asset policy stating that leasehold improvements are to have a useful life of seven to thirty years. However, we noted several leasehold improvements with useful lives of five years. These leasehold improvements were made to buildings that were classified as operating leases by the Organization. Management has been using the life of the lease, five years, as the useful life. This is the correct accounting treatment; however, it does not comply with the capital asset policy. We recommend that management amend the capital asset policy to state that leasehold improvements have a useful life of seven to thirty years, unless they relate to improvements made to operating leases; in which case they would be amortized over the remaining life of the lease.

JOURNAL ENTRIES

Our review of adjusting journal entries revealed that there are five individuals who are able to input journal entries into the system. Journal entries are not required to be pre-approved and they are not reviewed by management. We recommend that someone from management who does not have access to enter journal entries, periodically select journal entries that were made for testing. This individual should then verify that the journal entry is supported with adequate documentation, and that the journal entry appears to be reasonable and appropriate.

PAYROLL

During our audit, we noticed that there were five individuals who had full access to the payroll accounting system. Only individuals responsible for payroll changes should be given this access. We recommend that the Management Services Supervisor (Jean Wesolowski) and the Accountant (Marcie Rozek) be given look up function access only to the payroll accounting system.

December 10, 2004

Advisory Committee of
Bay Arenac Behavioral Health

This report is intended solely for the information and use of the board of directors, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed the comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to assist you in implementing the recommendation.

Very Truly Yours

Yeo & Yeo, P.C.
CPAs and Business Consultants

A handwritten signature in black ink, reading "Mari McKenzie". The signature is written in a cursive, flowing style with a large, stylized "M" and "K".

Mari McKenzie